Appendix 1

Finance Manual

2010/2011

southend onsea
BOROUGH COUNCIL

DELIVERING EXCELLENCE

Southend Borough Council – The Finance Manual

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1. Scope of Finance Manual

The Finance Manual is designed for use as a reference source by all staff, but it will clearly be of particular benefit to all officers, financial and non-financial, directly involved in the financial processes in the Authority.

The Finance Manual should be read alongside the Authority's Constitution. The Authority's Constitution comprises Contract Standing Orders, Financial Regulations and other key corporate governance policies. These key policies include rules relating to budgetary control whereby a contract cannot be entered into unless there is adequate budget provision. All these are in place to protect the Authority's resources, enable efficient allocation of resources and to aid the deliverance of excellence. All previous published manuals and guidance will be referred to in this manual and are not being reproduced word by word so updates can be carried out more rapidly and unnecessary printing avoided.

1.1. Objective

The Finance Manual has been created with the explicit purpose of supporting the Authority's Members and Officers in their respective roles:

- To provide a concise and clear reference guide in its financial operations.
- To ensure the Authority complies with current financial legislation and current best practice guidelines.
- To collate relevant financial information in one document or refer to the relevant document, policy or standard where the information can be obtained.

2. Financial Regulations

The current statutory base for the Authority's financial administration is The Local Government Act 1972 in where section 151 it states:

"…every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

This Act places on the Authority the obligation of proper management of its finances and to have a responsible officer, called Section 151 Officer, to take responsibility for the Authority's finances.

The Local Government Act 2000 (LGA 2000) added to the Local Government Act 1972 by placing on the Authority a requirement of having a written constitution and to formalise certain procedures. The Local Government Act 2000 together with other supporting documents provides a very detailed template of a Local Authority Constitution. The Authority's Constitution comprises of Financial Regulations and other key corporate governance policies. As mentioned above, these key policies should be read alongside this Finance Manual.

The Constitution can be found on the Authority's website:

http://www.southend.gov.uk/content.asp?content=1069

The Local Government Act 2003 places responsibilities, on the Authority to monitor budgets prudently and to make assumptions about risks and to quantify the risk in monetary terms. This is in addition to previous Local Government Acts. It also introduces a 'four star' scoring scheme of Local Authorities by the Audit Commission. It tasks the Audit Commission to assess how well a Local Authority uses its available resources, provide good service to local residents and other criteria. The Act also gives Local Authorities more power to raise finance for Capital Expenditure without consent from the Central Government.

2.1. Best Value Accounting Code Of Practice (BVACOP)

The *Best Value Accounting Code of Practice* (BVACOP) was created to ensure Local Authority accounting and reporting meets the changed and changing needs of modern local government. Particularly the duty to secure and demonstrate Best Value in the provision of services to the community. It provides a guide of how to classify income and expenditure in a consistent manner.

The concept of 'Best Value' was first introduced in The Local Government Act 1999 and was enhanced under The Local Government Act 2003 which formally defined BVACOP as representing statutory proper accounting practices to be followed by Local Authorities in England and Wales. BVACOP 2010/2011 has been prepared under International Financial Reporting Standards (IFRS) which is the standard Local Authority accounts need to be prepared under, albeit with some Local Authority concessions. The Financial Year 2010/2011 is the first year of IFRS being adopted by Local Authorities. The Chartered Institute of Public Finance & Accountancy (CIPFA) is reviewing BVACOP annually which ensures changes to financial reporting standards are reflected in BVACOP. The benefits of all Local Authorities using BVACOP is the data consistency and comparability it offers.

BVACOP does not provide guidance of how Local Authorities should prepare their Annual Accounts; that is covered in heading 2.2 and 2.3 below.

2.2. Standard Of Recommended Practice (SORP)

The Standard Of Recommended Practice (SORP) for Local Authorities was developed by CIPFA and constitutes a ‘proper accounting practice’ under the terms of Section 21(2) of the Local Government Act 2003. It has evolved over many years from best accounting practice and Accounting Concepts. The SORP provides the specific accounting principles and practices required to prepare Statement of Accounts which present fairly the financial position and transactions of the Local Authority. The SORP also covers Group Financial Statements which means any entity the Authority can exercise control over. South Essex Homes is an Arm Lengths Management Organisation (ALMO) that is controlled by the Council and falls within the legal definition of group accounts

In the event that specific requirements in a Statute require deviation from the SORP, Statute should prevail. It still means the Statement of Accounts has to be presented fairly. It does prescribe the minimum amount of disclosure and presentation of the Statement of Accounts. Local Authorities are free to disclose more details if they so wish.

SORP will only be valid until 31st March 2010 when it will be replaced by the Code of Practice on Local Authority Accounting (The Code).

2.3. Code of Practice on Local Authority Accounting (The Code)

The Code of Practice on Local Authority Accounting is replacing the SORP on 1st April 2010 as the source of specific accounting principles and practices necessary to give a “true and fair” view of the financial position and transactions of a local authority, including Group Financial Statements. The Code sets out the “proper accounting practices” required by section 21(2) of the Local Government Act 2003. These proper practices apply to *“…Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003”*. The Code includes interpretations and adaptations of International Financial Reporting Standards (IFRS) and other pronouncements by the International Accounting Standards Board (IASB). This edition of the Code is the first to implement International Financial Reporting Standards. As such there are a number of changes to accounting practice since the 2009 SORP.

Proper practice, as defined by regulations, also includes the requirements of other codes of practice, such as the Best Value Accounting Code of Practice. In preparing their accounts, authorities shall comply with the requirements of these other codes of practice as well as the requirements of this Code.

In the event specific requirements in a Statute require deviation from The Code, Statute should prevail which still mean the Statement of Accounts has to be presented fairly. It does prescribe the minimum amount of disclosure and presentation of the Statement of Accounts. Local Authorities are free to disclose more details if they so wish.

The Code has been prepared with the purpose so stakeholders can get obtain clear information from Local Authority's Statement of Accounts. Explanatory notes should be written in plain language and technical jargon or references should be kept to a minimum. If it cannot be avoided a glossary should be provided.

Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts. The Code aims to narrow the areas of difference and variety in accounting treatment with the rest of the public sector, facilitating consolidation. As part of the consolidation process, additional information to that disclosed in the Statement of Accounts may need to be submitted to government; such information is expected to be in line with the requirements of the Code.

Publication of the Statement of Accounts is set by a strict timetable set by Statute and CIPFA's *Standard of Professional Practice on Financial Reporting*. Currently the Statement of Accounts has to be prepared and approved by the 30th June and published by 30th September.

The financial statements, statement of accounting policies and notes to the accounts should form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion. The statements should be published with an audit certificate and opinion.

2.4. Treasury Management Code of Practice

The CIPFA definition of Treasury Management is:

"the management of an organisations cash flows, its banking, money market and capital market transactions: the effective control of risks associated with these activities; and the pursuit of optimum performance consistent with those risks".

Treasury Management Code of Practice provides guidance how the Council should manage their cash resources and its scope covers borrowing, investment and the managemnt of risk. Risk is inherent in all treasury management activities and it is necessary to balance risk and return. In the public services it is considered that the priority is to protect capital and liquidity rather than maximise return.

The aim of this Code of Practice is to provide a basis for the Council to create clear treasury management objectives and policies that will need to be supported by sound practices, including reporting of performance to relevant stakeholders. The Council's Treasury Management policies can be found by following the link below:

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

2.5. The Prudential Code

The Prudential Code was introduced following the Local Government Act 2003 as a new system of capital expenditure and borrowing took effect from 1st April 2004. The big change was that capital expenditure was no longer to be rationed by central government and the Local Authorities could set their own level of capital expenditure providing it is within the limits of affordability and prudence set by the Local Authorities themselves. The Prudential Code sets out to provide a clear governance procedure for this self regulation. It has been given statutory force by the Local Government Act 2003.

Local authorities need to demonstrate that their capital investment plans are affordable, prudential and sustainable. This performance is reported in a range of prudential indicators. The Prudential Code sets out the indicators to be used and the factors to be taken into account. The Council need to give consideration to six aspects when setting or revising prudential indicators which are:

- Affordability - what are the implications for council tax levels?
- Prudence - what are the implications for external borrowing?
- Value for Money - as demonstrated by option appraisal.
- Stewardship of Assets - e.g. asset management planning.
- Service Objectives - the fit with strategic and service plans
- Practicality - achievability.

2.6. Statement of Accounts components

A summary of all components of the Statement of Accounts from 2010/2011 is found below:

- Comprehensive Income and Expenditure Statement

This line reports on the net cost for the year of all of the functions for which the authority is responsible and demonstrates how this net cost has been financed from local tax payers and central government grant. It is the best measure of the council's financial results according to generally accepted accounting principles (GAAP).

- Movement in the Reserve Statement

This statement is based upon the comprahensive income and expenditure statement but contains certain amendments required by statute and non-statutory proper accounting practices.

- Statement of recognised gains and losses

The income and expenditure account will not contain certain gains and losses such as those arising from the revaluation of fixed assets. This statement takes the income and expenditure account and adjusts it for these additional gains and losses.

- Balance sheet

The balance sheet shows the authority's financial position at the beginning and end of the financial year. It will show the assets and liabilities recognised by the authority. The long term indebtedness of the authority will be of particular interest.

- Segmented reporting

This should be presented in the notes and should include the operational segments of the Authority. Any segment with less than 10% of gross revenue or gross income of the net service does not need to be identified separately.

- Cash flow statement

This summarises the inflows and outflows of cash from the local authority's transactions.

- Notes to the Financial Statements

The notes shall include information about the basis of preparation of the financial statements and the specific accounting policies used, disclose the information required by the Code that is not presented elsewhere in the financial statements and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

In addition to this, depending upon their structure and functions, some local authorities are required to produce additional statements. These include:

- The Housing Revenue Account

This reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with part 6 of the local government act 1989. It essentially contains income from house rents and housing related government grant. On the expenditure side is contains the expenditure related to maintaining council houses.

- Statements Reporting Reviews of Internal Financial Control

The Accounts and Audit regulations 2005 require Local Authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts.

- The Collection Fund

This shows the transactions of a billing authority in relation to domestic rates and council tax collection. It shows the way in which the money collected has been distributed to precepting authorities and the general fund.

- Group Accounts

For a variety of reasons local authorities may set up separate legal undertakings such as subsidiaries and joint ventures. Where this happens, the main financial statements of the local authority will not fully reflect the activities and financial position of the authority. Therefore group financial statements that include the authorities' role in these wider ranges of activities will be prepared.

2.7. Delegated Authority

The Local Authority's Constitution Part 3 Schedule 3 sets out the proper Delegated Authority from Members to Officers. It sets out the main principals of the Delegated Authority and the limiting factors of the Authority. In the Local Authority's Constitution Part 4(f) details the procedure rules and the financial limits that each post can sign off.

The tables below are showing draft authorisation levels for each post in Accountancy.

Invoices & Purchase Orders

Post	Limit	Restrictions
Chief Finance Officer / S.151 Officer*	Unlimited	Any Cost Centres when signing as S.151 Officer and in conjunction with either the Chief Executive or the Monitoring Officer.
Deputy S.151 Officer*	Unlimited	Any Cost Centres when signing as Deputy S.151 Officer and in conjunction with either the Chief Executive or the Monitoring Officer.
Head of Service*	Over £100k to £10m	All Cost Centres for Finance & Resources & Revenues & Benefits Divisions.
Group Manager*	£100k	Only Cost Centres for Accountancy Services team and Sundry Debtor Refunds
Group Manager	£100k	Only Cost Centres for Accountancy Services team.
Group Accountant	£20k	Only Cost Centres for Accountancy Services team.
Accountant	£5k	Only Cost Centres for Accountancy Services team.
Income Manager	£2k	Only Cost Centres for Accountancy Services team and Sundry Debtor Refunds

* These Officers are also signatories on the Council's General bank account.
# The limit should be set to allow a maximum of 30% of total non staff budget to be authorised in any one transaction

These limits are still subject to member's approval.

Award of Contracts

Post	Limit	Restrictions
Chief Finance Officer / S.151 Officer*	Unlimited	In accordance with award of contract rules and in conjunction with one of Chief Executive or Monitoring Officer
Deputy S.151 Officer*	Unlimited	In accordance with award of contract rules and in conjunction with one of Chief Executive or Monitoring Officer
Head of Service*	£1m	Some contracts will be under seal; see contract rule 4.6. All awards subject to other contract rules
Group Manager*	£100k	In accordance with award of contract rules
Group Manager	£100k	In accordance with award of contract rules

These limits are still subject to member's approval.

Write Offs		
Name	**Limit**	**Restrictions**
Chief Finance Officer / S.151 Officer*	Unlimited	Any Cost Centres when signing as S.151 Officer in conjunction with either the Chief Executive or the Monitoring Officer.
Deputy S.151 Officer*	Unlimited	Any Cost Centres when signing as Deputy S.151 Officer in conjunction with either the Chief Executive or the Monitoring Officer.
Head of Service*	Over £100k to £10m	All Cost Centres for Finance & Resources & Revenues & Benefits Divisions.
Group Manager*	£100k	Only Cost Centres for Accountancy Services team and Sundry Debtor Refunds
Income Manager	£2k	Only Cost Centres for Accountancy Services team and Sundry Debtor Refunds
Income Team	£10	Any Cost Centre - Write off in relation to Sundry Debt Collection.

These limits are still subject to member's approval.

Currently work is being carried out to standardise the approval levels across the whole of the Council. Each Departmental Management Team (DMT) needs to agree appropriate levels for each of their service areas.

3. Organisational Structure of Accountancy

The Accountancy section is part of Finance and Resources Service which in turn is under the Support Services Directorate. There are two main branches in Accountancy: Financial Management and Financial Planning and Capital. The main duties of Accountancy are the maintenance and continuous improvement of effective financial management throughout the Council, enabling the Council to deliver its corporate objectives whilst ensuring propriety, financial stewardship and overall value for money.

The Service Plan for Finance and Resources can be found by following the link below

http://pegasus/policy/StrategyandPerformance/Pages/ServicePlanning.aspx

3.1. Financial Management

Financial Management provides financial support, and advice regarding budget setting, monitoring and reporting of the four Corporate Service Directorates. It mainly includes the day-to-day expenditure and income of the service area. The team also compiles the Council's Statement of Accounts. Financial Management is split into four teams to mirror the corporate structure. Each team is headed by a Group Accountant who in turn report to the Group Manager of the section. For a detailed structure chart see Annex 1(to be updated).

3.2. Financial Planning and Capital

The Financial Planning and Capital team is responsible for financial planning (including the Medium Term Financial Strategy), the Council's Treasury Management (including borrowings, banking and investments), monitoring of the Strategic Capital Programme, VAT and leasing. The Finance System is also administrated in this team as is the Council's Fixed Asset Register. For a detailed structure chart see Annex 1 (to be updated).

3.3. Control Team

The Control and Cashier's Team banks cheques sent to the Council, ensure our bank statement transactions are posted on the Finance System, reconciling all control accounts and ensure all feeders are posted on to the Financial System. For a detailed structure chart see Annex 1 (to be updated).

3.4. Income Team

The Income Team or Debtors Team raise invoices for some of the Council's debtors, collect payments, manages the Council's car leasing scheme, receive payments on the Council's remaining mortgages and maintains the debtors system. For a detailed structure chart see Annex 1 (to be updated).

4. Budget Setting

The budget setting procedures are covered by the Council's Budget Manual. Follow the link below for a copy of the Budget Manual.

http://pegasus/support/assets/FinancialPlanningAndCapital/budget/Pages/default.aspx

5. Budget Monitoring

The budget monitoring procedures are covered by the Council's Budget Manual. Follow the link below for a copy of the Budget Manual.

http://pegasus/support/assets/FinancialPlanningAndCapital/budget/Pages/default.aspx

6. Year End Procedures

The Year End date for every Council in England is the 31st March. There is a strict timetable for meeting this statutory deadline. The Annual Accounts must be approved by the 30th June and then published 30th September in the same year.

Refer to the Closure of Accounts document by following the link below.

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

7. Financial Planning

The financial planning procedures are covered by the Council's Budget Manual. Follow the link below for a copy of the Budget Manual.

http://pegasus/support/assets/FinancialPlanningAndCapital/budget/Pages/default.aspx

8. VAT (Value Added Tax)

VAT, or Value Added Tax, is levied on most of the Council's financial transactions. Normally an organisation will have to keep accounts of how much VAT it pays on goods or services purchases and collects on goods or services it sells and either pay or reclaim the balance to the HMRC. The Council, being a Local Authority is in a position where it can reclaim VAT from the HMRC every month. Accountancy Services is responsible for completing the Council's monthly VAT return. However, the return's general accuracy relies on all Council staff correctly processing expenditure and income.

The VAT help line can be contacted by e-mailing vathelpline@southend.gov.uk

The Council's VAT self help page and relevant documents can be found by following the link.

http://pegasus/support/assets/FinancialPlanningAndCapital/VAT/Pages/default.aspx

9. Capital and Capital Programme

Capital expenditure is defined as expenditure incurred on the acquisition, creation or enhancement of assets needed to provide services, such as houses, schools, vehicles etc. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support the revenue budget.

The majority of capital expenditure will continue to be directly supported by Government, either by capital grant or revenue support for borrowing. Unsupported borrowing will not be supported financially by either capital grant or revenue support grant; hence the full cost has to be met from Council Tax.

Relevant documents can be found by following the link below.

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

10. Treasury Management

The Council defines its treasury management activities as the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This involves forecasting of future cash flows (money paid **to** the Council and money paid **by** the Council) and managing those cash flows in line the Council's investment objectives of security, liquidity and then return.

For more details and other relevant documents can be found by following the link below.

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

11. Debtors

The Council provides services to the residents and businesses of Southend, some of which are chargeable. Some charges are made in advance of the service being delivered, e.g. 'pay and display' car parking, some are invoiced prior to the service being delivered but the service is continuous, while others are invoiced after the service has been provided.

For more details and other relevant documents can be found by following the link below.

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

12. Financial Systems

The Council has decided to replace the current financial system with an integrated ERP (Enterprise Resource Planning) solution replacing separate systems used in Accountancy, Payroll and Human Resources. It will offer an integration that is not possible with the current system. Documents and policies will be replaced as implementation work progresses. Follow the link below to find the latest documents.

http://pegasus/support/assets/FinancialPlanningAndCapital/Documents/Forms/AllItems.aspx

13. MTFS (Medium Term Financial Strategy)

The MTFS is the Council's financial forward planning document and it is reviewed and updated annually. It provides the Council with a resource planning framework and links with the Council's corporate planning. A copy of the latest report can be found by following the link below.

http://pegasus/support/assets/FinancialPlanningAndCapital/Pages/FinancialInformation.aspx

14. Devolved Finance Sections

In addition to the central finance team (Accountancy) there are devolved finance functions in the Directorates. Every section involved in finance is required to have up-to-date procedure notes. It is the responsibility of the Head of Service of the relevant area to ensure these exist.

Schools also have independent finance functions. There is separate financial guidance for schools which is published on the Council's website. This is currently under review to update with the latest developments in Local Authority accounting.

A link to the school financial guidance, called "Scheme for Financing Schools" can be found by following the link below.

http://sculptor:8081/content.asp?content=7278

15. Summary of responsibilities of Section 151 Officer

The list below is a summary of some of the responsibilities of the Section 151 Officer (Chief Finance Officer). The list is not exhaustive.

- To ensure the proper administration of the financial affairs of the authority.

- To set the financial management standards and to monitor compliance with them.

- To ensure proper professional practices are adhered to and to act as head of profession in relation to the standards, performance and development of finance staff throughout the authority.

- To comply with the following principles when allocating accounting duties:

  - Separating the duties of providing information about sums due to or from the authority and calculating, checking and recording these sums from the duty of collecting or disbursing them
  - Employees with the duty of examining or checking the accounts of cash transactions must not themselves be engaged in these transactions

- To prepare and publish the audited accounts of the authority for each financial year, in accordance with the statutory timetable and with the requirement for the full Council to approve the statement of accounts before 30 September.

- To establish an appropriate framework of budgetary management and control that ensures that:

  - Budget management is exercised within annual cash limits unless the full Council agrees otherwise.

    - Each Corporate Directors / Heads of Service has available timely information on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their budgetary responsibilities.
    - Expenditure is committed only against an approved budget head.
    - Each cost centre has a single named manager, determined by the relevant Corporate Directors / Heads of Service As a general principle, budget responsibility should be aligned as closely as possible to the decision-making processes that commits expenditure.

- Significant variances from approved budgets are investigated and reported by budget managers regularly

- To submit reports to the Cabinet and to the full Council, in consultation with the relevant Corporate Directors / Heads of Service, where a Corporate Directors / Heads of Service is unable to balance expenditure and resources within existing approved budgets under his or her control.

- To prepare and submit reports on the authority's projected income and expenditure compared with the budget on a regular basis.

For a comprehensive list of responsibilities see the Council's Constitution 4(f) appendices.

16. Summary of responsibilities of Directors and Heads of Service

The list below is a summary of some of the responsibilities of Directors and Heads of Service. The list is not exhaustive.

- To promote the financial management standards set by the Chief Finance Officer in their departments and to monitor adherence to the standards and practices, liaising as necessary with the Chief Finance Officer.

- To promote sound financial practices in relation to the standards, performance and development of staff in their departments.

- To comply with the principles below when allocating accounting duties:

    - Separating the duties of providing information about sums due to or from the authority and calculating, checking and recording these sums from the duty of collecting or disbursing them.
    - Employees with the duty of examining or checking the accounts of cash transactions must not themselves be engaged in these transactions.

- To maintain adequate records to provide a management trail leading from the source of income/expenditure through to the accounting statements.

- To supply information required to enable the statement of accounts to be completed in accordance with guidelines issued by the Chief Finance Officer.

- To maintain budgetary control within their departments and to ensure that all income and expenditure are properly recorded and accounted for.

- To ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Corporate Directors / Heads of Service (grouped together in a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.

- To ensure that spending remains within the service's overall cash limit, and that individual budget heads are not overspent, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast.

- To prepare and submit to the Cabinet reports on the service's projected expenditure compared with its budget, in consultation with the Chief Finance Officer.

- To ensure prior approval by the full Council or Cabinet (as appropriate) for new proposals, of whatever amount, that:

    - Create financial commitments in future years
    - Change existing policies, initiate new policies or cease existing policies
    - Materially extend or reduce the authority's services.

For a comprehensive list of responsibilities see the Council's Constitution 4(f) appendices.